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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

**DOCKETED**

NOV 19 2008

MIKE GLEASON - Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
OAK CREEK WATER COMPANY NO. 1 FOR A  
RATE INCREASE.

DOCKET NO. W-01392A-07-0679

DECISION NO. 70622

**OPINION AND ORDER**

DATE OF HEARING:

August 5, 2008

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Teena Wolfe

APPEARANCES:

Mr. Richard L. Sallquist, SALLQUIST DRUMMOND  
& O'CONNOR, P.C., on behalf of Oak Creek Water  
Company No. 1; and

Mr. Kevin O. Torrey, Staff Attorney, Legal Division,  
on behalf of the Utilities Division of the Arizona  
Corporation Commission

**BY THE COMMISSION:**

**PROCEDURAL HISTORY**

On December 7, 2007, Oak Creek Water Company No. 1 ("Oak Creek" or "Company") filed the above-captioned rate application with the Arizona Corporation Commission ("Commission") with a test year ending December 31, 2006, using the water utility rate application form for a Class D utility.

On January 29, 2008, the Commission's Utilities Division Staff ("Staff") filed a letter indicating that Oak Creek's rate application was sufficient, and classifying Oak Creek as a Class C utility.

Oak Creek is currently charging rates approved by the Commission in Decision No. 64198 (November 9, 2001).

On February 28, 2008, a Rate Case Procedural Order was issued setting a hearing on the

1 application to commence August 5, 2008, and setting associated procedural deadlines.

2 On May 9, 2008, the Company filed copies of an Affidavit of Publication and an Affidavit of  
3 Mailing, indicating that the Company mailed notice of the hearing on its application as required.

4 On June 19, 2008, Staff filed the direct testimony of Staff's witnesses, and on July 24, 2008,  
5 the Company filed the rebuttal testimony of its witness.

6 On August 5, 2008, the hearing on the application was convened as scheduled before a duly  
7 authorized Administrative Law Judge of the Commission. No members of the public appeared to  
8 provide public comment. The Company and Staff appeared through counsel, presented testimony  
9 and evidence, and cross-examined witnesses.

10 Following the hearing, on August 15, 2008, the Company docketed a late-filed exhibit with  
11 invoices for rate case expense and estimates for remaining costs. Closing briefs were filed on  
12 August 29, 2008, reply briefs were filed on September 5, 2008, and the matter was taken under  
13 advisement.

14 \* \* \* \* \*

15 Having considered the entire record herein and being fully advised in the premises, the  
16 Commission finds, concludes, and orders that:

17 **FINDINGS OF FACT**

18 1. Oak Creek is an Arizona public service corporation organized as a member-owned,  
19 nonprofit association. At the end of the test year, December 31, 2006, Oak Creek provided water  
20 utility services to approximately 646 residential and commercial customers, in a service territory  
21 located in an approximately 1 square mile area located west of the City of Sedona near the Sedona  
22 Airport in Yavapai County, Arizona.

23 2. The Commission authorized Oak Creek's current rates in Decision No. 64198  
24 (November 9, 2001).

25 3. On December 7, 2007, Oak Creek filed the above-captioned rate application with the  
26 Commission. The Company filed its application using the water utility rate application form for a  
27 Class D utility. The application included a letter from Paul Slevin, Vice President of the Board of  
28 Directors, requesting that the Commission accept the short-form filing despite the fact that the

1 revenues requested exceed \$250,000. The letter stated that allowing the Company to file the short  
2 form rate application would save the Company a significant amount of rate case expense, which  
3 would benefit its members and ratepayers.

4 4. On December 11, 2007, a customer filed a public comment in opposition to the  
5 requested rate increase. The comment stated that the customer is not opposed to a smaller rate  
6 increase.

7 5. On December 14, 2007, the Company filed a Certification of Mailing of Customer  
8 Notice indicating that the Company notified its customers of the filing of the rate application.

9 6. On January 3, 2008, Staff filed a letter informing the Company that its application  
10 had not met the sufficiency requirements of the Commission's rules.

11 7. On January 15, 2008, Oak Creek filed its response to the Letter of Deficiency.

12 8. On January 29, 2008, Staff filed a letter indicating the Company's rate application  
13 was sufficient, and classifying the Company as a Class C utility.

14 9. On February 28, 2008, a Rate Case Procedural Order was issued setting a hearing to  
15 commence on August 5, 2008, and setting associated procedural deadlines.

16 10. On March 5, 2008, Sallquist, Drummond and O'Connor, PC, filed a Notice of  
17 Appearance.

18 11. On May 9, 2008, the Company filed copies of an Affidavit of Publication and an  
19 Affidavit of Mailing, indicating that the Company mailed notice of the hearing on its application as  
20 required by the Rate Case Procedural Order.

21 12. On June 19, 2008, Staff docketed its Notice of Filing Staff's Direct Testimony. The  
22 filing included the prefiled direct testimony of Staff witness Darron Carlson and the prefiled direct  
23 testimony of Dorothy Hains.

24 13. On July 24, 2008, the Company docketed its Notice of Filing Testimony. The filing  
25 included the prefiled rebuttal testimony of Thomas J. Bourassa.

26 14. On August 5, 2008, the hearing on the application was convened as scheduled before  
27 a duly authorized Administrative Law Judge of the Commission. No members of the public  
28 appeared to provide public comment. The Company and Staff appeared through counsel, presented

1 testimony and evidence, and cross-examined witnesses.

2 15. On August 15, 2008, the Company docketed a late-filed exhibit with invoices for rate  
3 case expense and estimates for remaining costs. The exhibit showed costs of \$17,379.21 as of July  
4 31, 2008, and an estimate of \$11,838 to complete the proceeding, for a total estimate of \$29,217.21.

5 16. On August 29, 2008, Oak Creek and Staff filed closing briefs.

6 17. On September 5, 2008, Oak Creek and Staff filed reply briefs and the matter was  
7 taken under advisement.

8 18. The water rates and charges for Oak Creek at present, as proposed by the Company,  
9 and as recommended by Staff, are as follows:

	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
<b><u>MONTHLY USAGE CHARGE:*</u></b>			
5/8" x 3/4" Meter	\$7.00	\$9.50	\$8.00
3/4" Meter	7.00	9.50	8.00
1" Meter	9.50	11.88	10.99
1 1/2" Meter	12.25	23.75	14.17
2" Meter	16.00	38.00	18.51
3" Meter	22.75	76.00	26.31
4" Meter	36.00	118.75	41.64
6" Meter	48.00	237.50	55.52

17 \*Multi-Unit Monthly Usage Charge is the 3/4-inch meter charge times the number of units.

18 Gallons included in Monthly Usage Charge	1,000	0	0
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19 **Commodity Rates (Per 1,000 Gallons)**

20 **5/8-inch and 3/4-inch (Residential)**

21 0-4,000 Gallons	1.73	1.79	1.73
22 4,001-50,000 Gallons	2.12	N/A	N/A
23 Over 50,000 Gallons	2.39	N/A	N/A
4,001 to 10,000 Gallons	N/A	2.24	2.40
Over 10,000 Gallons	N/A	2.74	2.88

24 **5/8-inch and 3/4-inch (Commercial)**

25 0-4,000 Gallons	1.73	1.79	N/A
26 4,001-50,000 Gallons	2.12	N/A	N/A
Over 50,000 Gallons	2.39	N/A	N/A
0-25,000 Gallons	N/A	N/A	2.40
27 over 25,000 Gallons	N/A	N/A	2.88
4,001 to 10,000 Gallons	N/A	2.24	N/A
28 Over 10,000 Gallons	N/A	2.74	N/A

1	<u>1-inch (Residential)</u>			
2	0-4,000 Gallons	1.73	N/A	1.73
3	4,001-50,000 Gallons	2.12	N/A	N/A
4	Over 50,000 Gallons	2.39	N/A	N/A
5	4,001-10,000 Gallons	N/A	N/A	2.40
6	Over 10,000 Gallons	N/A	N/A	2.88
7	0-12,500 Gallons	N/A	2.24	N/A
8	Over 12,500 Gallons	N/A	2.74	N/A
9	<u>1-inch (Commercial)</u>			
10	0-4,000 Gallons	1.73	N/A	N/A
11	4,001-50,000 Gallons	2.12	N/A	N/A
12	Over 50,000 Gallons	2.39	N/A	N/A
13	0-25,000 Gallons	N/A	N/A	2.40
14	over 25,000 Gallons	N/A	N/A	2.88
15	0-12,500 Gallons	N/A	2.24	N/A
16	over 12,500 Gallons	N/A	2.74	N/A
17	<u>1 1/2-inch (Residential)</u>			
18	0-4,000 Gallons	1.73	N/A	1.73
19	4,001-50,000 Gallons	2.12	N/A	N/A
20	Over 50,000 Gallons	2.39	N/A	N/A
21	4,001-10,000 Gallons	N/A	N/A	2.40
22	Over 10,000 Gallons	N/A	N/A	2.88
23	0-25,000 Gallons	N/A	2.24	N/A
24	Over 25,000 Gallons	N/A	2.74	N/A
25	<u>1 1/2-inch (Commercial)</u>			
26	0-4,000 Gallons	1.73	N/A	N/A
27	4,001-50,000 Gallons	2.12	N/A	N/A
28	Over 50,000 Gallons	2.39	N/A	N/A
29	<u>2-inch (Commercial)</u>			
30	0-4,000 Gallons	1.73	N/A	N/A
31	4,001-50,000 Gallons	2.12	N/A	N/A
32	Over 50,000 Gallons	2.39	N/A	N/A
33	0-25,000 Gallons	N/A	N/A	2.40
34	Over 25,000 Gallons	N/A	N/A	2.88
35	0-40,000 Gallons	N/A	2.24	N/A
36	Over 40,000 Gallons	N/A	2.74	N/A
37	<u>3-inch (Commercial)</u>			
38	0-4,000 Gallons	1.73	N/A	N/A
39	4,001-50,000 Gallons	2.12	N/A	N/A
40	Over 50,000 Gallons	2.39	N/A	N/A

1	0-25,000 Gallons	N/A	N/A	2.40
	Over 25,000 Gallons	N/A	N/A	2.88
2	0-80,000 Gallons	N/A	2.24	N/A
	Over 80,000 Gallons	N/A	2.74	N/A

4-inch (Commercial)

4	0-4,000 Gallons	1.73	N/A	N/A
5	4,001-50,000 Gallons	2.12	N/A	N/A
	Over 50,000 Gallons	2.39	N/A	N/A
6	0-25,000 Gallons	N/A	N/A	2.40
	Over 25,000 Gallons	N/A	N/A	2.88
7	0-125,000 Gallons	N/A	2.24	N/A
	Over 125,000 Gallons	N/A	2.74	N/A

6-inch (Commercial)

9	0-4,000 Gallons	1.73	N/A	N/A
10	4,001-50,000 Gallons	2.12	N/A	N/A
	Over 50,000 Gallons	2.39	N/A	N/A
11	0-25,000 Gallons	N/A	N/A	2.40
	Over 25,000 Gallons	N/A	N/A	2.88
12	0-250,000 Gallons	N/A	2.24	N/A
13	Over 250,000 Gallons	N/A	2.74	N/A

Construction or BulkMulti-Unit (Residential and Commercial)

15	0-25,000 Gallons	N/A	N/A	2.40
16	Over 25,000 Gallons	N/A	N/A	2.88
17	0-(the number of units x 10,000) Gallons	N/A	2.24	N/A
	Over (the number of units x 10,000) Gallons	N/A	2.74	N/A

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Present Rates</u>	<u>Company Proposed</u>		<u>Staff Proposed</u>	
			<u>Service Line</u>	<u>Meter</u>	<u>Total Installation</u>
5/8" x ¾" Meter	\$ 415.00	\$ 415.00	\$ 340.00	\$ 75.00	\$ 415.00
¾" Meter	475.00	475.00	340.00	135.00	475.00
1" Meter	550.00	550.00	390.00	160.00	550.00
1½" Meter	785.00	785.00	420.00	365.00	785.00
2" Meter	1,375.00	1,375.00	550.00	825.00	1,375.00
3" Meter	1,975.00	1,975.00	715.00	1,260.00	1,975.00
4" Meter	3,040.00	3,040.00	1,030.00	2,010.00	3,040.00
6" Meter	5,635.00	5,635.00	1,550.00	4,085.00	5,635.00

<u>SERVICE CHARGES:</u>	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
Establishment	\$35.00	\$35.00	\$35.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	50.00	50.00	50.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	*	0.00	*
Deposit Interest	*	6.00%	*
Reestablishment (Within 12 Months)	N/A	**	**
NSF Check	25.00	25.00	25.00
Deferred Payment (per month)	1.50%	1.50%	1.50%
Meter Re-read	N/A	20.00	20.00
Late Payment Penalty	5.00	5.00	5.00
Moving Customer Meter (Customer Request)	N/A	***	***
After Hours Service Charge	N/A	****	****

\* Per Commission Rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

\*\*\* Per Commission Rule R14-2-405

\*\*\*\* Cost, per Commission Rule R14-2-403(D).

19. The Company and Staff are in agreement that the Company's Original Cost Rate Base ("OCRB") is \$465,600, and that the OCRB is the Company's Fair Value Rate Base ("FVRB"). The Company's FVRB for purposes of this proceeding is \$465,600.

20. Oak Creek is a non-profit corporation with a small rate base. Both the Company and Staff recommend that the Company's revenue requirement be determined based on an operating margin, as opposed to return on rate base. Staff and the Company both calculated an operating margin using Oak Creek's expenses as a base and allowing additional income to cover incidental expenses.

21. While the Company and Staff agree on FVRB, the appropriate methodology to determine Oak Creek's revenue requirement, and on adjusted test year revenues of \$271,122, they disagree regarding the level of test year operating expense. The Company proposes a revenue requirement of \$339,179, based on its proposed operating margin of 10 percent. Staff proposes a revenue requirement of \$316,618, based on its recommendation for an operating margin of 11 percent. The Company's proposal would result in a revenue increase of 25.10 percent, and Staff's

1 proposal would result in a revenue increase of 16.83 percent over adjusted test year revenues.

2 22. The Company proposes test year total operating expenses of \$305,261, for test year  
3 operating loss of (\$34,139). Staff recommends test year total operating expenses of \$281,931, for a  
4 test year operating loss of (\$10,809). The differing recommendations are due to disagreement on  
5 several test year operating expenses issues as set forth and resolved in Findings of Fact below.

6 23. Salary and Wages Expense. The Company proposes Salaries and Wages Expense of  
7 \$139,964. Staff proposes \$129,264. Staff opposes the inclusion of \$10,700 in estimated post-test  
8 year expenses proposed by the Company. Oak Creek concedes that the additional expenses were  
9 incurred post test year, but claims they should be allowed because that they will be incurred on a  
10 going-forward basis. Staff argues that the proposed amount should not be allowed, pointing out that  
11 one employee for whom Oak Creek claims some of the post test year expense was hired over a year  
12 after the end of the test year, and that the Company lacked documentation for a full year of the  
13 claimed expense. Staff argues that not only is the expense too far outside the test year, but that the  
14 claimed amount is not known and measurable, because it is based on estimated, as opposed to actual  
15 post-test year expenses. The test year used to calculate rate base and revenue requirements in this  
16 case ended December 31, 2006. The Company's estimate is based on expenses incurred far outside  
17 the test year for a period of less than a full year. The reliability of the expense level cannot be  
18 ascertained, and is brought further into question by the fact that the Company's estimate changed  
19 with the filing of the Company's rebuttal testimony. The Company's proposed \$10,700 in additional  
20 estimated post-test year Salaries and Wages Expense is not known and measurable and will not be  
21 allowed in operating expenses. Staff's recommendation for Salaries and Wages Expense of  
22 \$129,264 is reasonable and will be adopted.

23 24. Repairs and Maintenance Expense. Both the Company and Staff propose that the  
24 2006 test year Repairs and Maintenance Expense of \$25,698 be normalized. The Company proposes  
25 \$18,721, and Staff proposes \$14,280. Staff's proposal is an average of the Company's reported six  
26 years of expenditures from 2002 to 2007, which were \$16,030, \$3,169, \$13,443, \$12,574, \$25,698,  
27 and \$14,768, respectively. The Company objects to Staff's methodology, arguing that Staff's figure  
28 is skewed because the six years used by Staff include one year with only \$3,169 in Repairs and



1 Maintenance Expense, and that Staff did not recognize increases in materials and repair costs. The  
2 Company proposes a three year period for the normalization, using a "sampling" methodology to  
3 which it applies inflation factors developed using the Handy-Whitman Index for Public Utility  
4 Construction Costs. Oak Creek's witness first sampled repair invoices, then applied an average  
5 increase in costs over the six year period used by Staff, proposing a 6.05 percent average increase  
6 based on its Handy-Whitman derived inflation factors. Staff argues that the Company's proposed  
7 normalization figure is not known and measurable, and that the reasoning behind it is fundamentally  
8 flawed. Staff points out that the Company's methodology does not make a direct correlation of  
9 individual repairs, but instead places numerous repairs into seven categories of expenses, and then  
10 applies inflation factors at different rates for each category. Staff contends that the Company's  
11 methodology is based on the unreasonable and erroneous assumption that during every year, the  
12 Company will continue to experience the same amount of expense within each category in  
13 proportion to the Company's total expense. Staff states that if a utility's past repairs had involved  
14 replacement of a transmission main, for example, it would be unreasonable to assume that the cost of  
15 repairing the same main should be a component of the utility's current repair and maintenance  
16 budget, but that Oak Creek's methodology would have almost exactly that effect. We agree with  
17 Staff that the assumptions upon which the Company's proposed normalization methodology is based  
18 are flawed, and that its results are therefore unreliable. The methodology chosen by Staff, which  
19 used actual yearly expenses, yields a more reasonable and reliable normalization result. The  
20 Company failed to show that Staff's use of six years of actual expenses, including one year  
21 following the test year, led to an inaccurate or unrepresentative amount for the Company's repairs  
22 and maintenance expense budget. The Company's argument that the average is "skewed" by the  
23 lower expenses it experienced in 2003 ignores the fact that differing annual expense levels reflect a  
24 normal fluctuation in this type of expense, which is captured by Staff's normalization methodology.  
25 Staff's recommendation for annualized Repairs and Maintenance Expense of \$14,280 is reasonable  
26 and we adopt it.

27       25. Office Supplies and Expense. Oak Creek proposes \$10,099 for Office Supplies and  
28 Expense, while Staff proposes \$9,480. The Company states that the \$619 difference is due to

1 amounts the Company paid for its offices' natural gas and waste services. The Company contends  
2 that Staff should have reclassified \$619 from Oak Creek's Purchased Power Expense account to  
3 Office Supplies and Expense. Staff states that such services to a utility's offices would be legitimate  
4 expenses if verified, but that because it has not seen documentation for the \$619 expense, Staff  
5 cannot verify either an amount spent or on what it was spent. The claimed \$619 in expense is  
6 unverified. Staff's recommendation of \$9,480 for Office Supplies and Expense is reasonable and  
7 will be adopted.

8       26.   Transportation Expense. Oak Creek proposes test year Transportation Expense of  
9 \$5,227, and Staff proposes \$4,302. The \$925 difference is due to an upward adjustment the  
10 Company made to its actual test year gasoline bills, to reflect a higher average per gallon cost of  
11 \$4.00, with a \$3.97 to \$4.19 range. Staff opposes the adjustment, arguing that it is based on the  
12 speculative assumption that Oak Creek would not have altered its driving behaviors, despite an  
13 increase in gasoline prices. We agree with Staff that while gas prices have increased since the test  
14 year, Oak Creek's proposed change to test year fuel expense levels does not constitute a known and  
15 measurable change. We therefore reject the Company's proposed adjustment. Staff's  
16 recommendation of the Company's actual test year Transportation Expense amount, \$4,302, is  
17 reasonable and will be adopted.

18       27.   Miscellaneous Expense. The Company requested recognition of \$1,292 in expenses  
19 for "personal, vendor, and customer interfaces." Staff did not receive documentation it requested to  
20 support the proposed expenses, and recommended disallowance in direct testimony. The Company  
21 did not provide information supporting the proposed expenses until it filed rebuttal testimony. The  
22 Company contends that the expenses are necessary and reasonable. However, because the Company  
23 failed to timely provide supporting documentation to allow an appropriate audit, their necessity or  
24 reasonableness cannot be determined. The proposed miscellaneous expenses will therefore not be  
25 allowed.

26       28.   Rate Case Expense. The Company filed its application using the water utility rate  
27 application form for a Class D utility. The Company's application included a letter from Paul  
28 Slevin, Vice President of the Board of Directors, requesting that the Commission accept the short

1 form filing despite the fact that the revenues requested exceed \$250,000. The letter stated that  
2 allowing the Company to file the short form rate application would save the Company a significant  
3 amount of rate case expense, which would benefit its members and ratepayers. In its initial filing,  
4 the Company requested an allowance of \$10,000 in rate case expense to be recovered over a three  
5 year period, for \$3,333 in annual Rate Case Expense. In its rebuttal filing, the Company requests an  
6 additional \$15,000, for a total of \$25,000, recovered over four years, for \$6,250 in annual Rate Case  
7 Expense. Staff recommends \$10,000 recovered over five years, for annual Rate Case Expense of  
8 \$2,000. On August 15, 2008, as agreed at the hearing, the Company docketed a late-filed exhibit  
9 with invoices for rate case expense and estimates for remaining costs. The filing shows costs of  
10 \$17,379.21 as of July 31, 2008, and an estimate of \$11,838 to complete the proceeding, for a total  
11 estimate of \$29,217.21. The Company states that "[i]t is unfortunate that rate case expense [sic] are  
12 as high as they are" but asserts that \$6,250 in annual Rate Case Expense is reasonable and  
13 appropriate.<sup>1</sup> The Company contends that the processing of a rate case dictates its rate case  
14 expenses, and that "[a]ll of those expenses are costs which are out of control of the Company. They  
15 are mandated as part of the regulatory process. For Staff to recommend disallowance of a utilities  
16 [sic] reasonable expenses associated with the Commission's prescribed process is, at a minimum,  
17 confiscatory. To effectively limit a company's ability to defend its application is blatantly unfair and  
18 unreasonable, and possibly a violation of that utilities [sic] due process."<sup>2</sup> At the hearing, the  
19 Company's witness testified that its initial estimate of rate case expense did not contemplate a  
20 hearing and rebuttal testimony. Staff states, however, that its recommendation for an allowance of  
21 \$10,000 in rate case expense, recovered over five years, already takes into account both the savings  
22 the Company experienced by making the Class D "short form" filing, and the fact that Oak Creek, a  
23 Class C utility, would present its case at a hearing. Staff believes that the additional \$15,000 sought  
24 by the Company in its rebuttal filing has not been reasonably incurred and should therefore not be  
25 allowed. We disagree with the Company's assertion that the costs of a rate case are "out of control  
26 of the Company," and find that Oak Creek's original request of \$10,000 constitutes a reasonable and

27  
28 <sup>1</sup> Applicant's Opening Brief at 8.

<sup>2</sup> Applicant's Reply Brief at 2.

1 fair level of expense to the Company's members and ratepayers for preparing, processing and  
2 defending Oak Creek's application. Contrary to the Company's assertion on brief, the requested  
3 level of \$25,000 in Rate Case Expense for this case is not "mandated as part of the regulatory  
4 process." Allowing this amount to be recovered from Oak Creek's ratepayers would be  
5 unreasonable and inappropriate. As Staff points out on brief, the Company's estimate of \$29,217.21  
6 in expenses amounts to more than 10 percent of Oak Creek's test year annual revenue. Based on the  
7 Company's past timing of its rate application filings, normalization of Rate Case Expense over a five  
8 year period as recommended by Staff is reasonable. We will therefore allow annual Rate Case  
9 Expense of \$2,000.

10 29. Oak Creek's present water rates and charges produced adjusted test year revenues of  
11 \$271,122, and test year adjusted operating expenses of \$281,931, which resulted in net operating  
12 income of (\$10,809).

13 30. The water rates and charges Oak Creek proposes would produce total operating  
14 revenue of \$339,179 and total operating expenses of \$305,261, resulting in operating income of  
15 \$33,918, for a 10 percent operating margin.

16 31. The water rates and charges Staff recommends would produce total operating revenue  
17 of \$316,618 and total operating expenses of \$281,796, resulting in operating income of \$34,822, for  
18 an 11 percent operating margin.

19 32. During the test year, the average usage of Oak Creek's residential customers was  
20 7,994 gallons per month.

21 33. Oak Creek's proposed rates would increase the average usage (7,994 gallons/month)  
22 residential 3/4 inch meter monthly bill by \$3.26, or 14.55 percent, from \$22.40 to \$25.66.

23 34. Staff's recommended rates would increase the average usage (7,994 gallons/month)  
24 residential 3/4 inch meter monthly bill by \$2.11, or 9.4 percent, from \$22.39 to \$24.50.

25 35. The rates set herein produce an increase in annual revenues of 16.83 percent which  
26 results in a monthly increase of \$2.11, from \$22.39 to \$24.50, or 9.4 percent, for the average usage  
27 (7,994 gallons/month) 3/4 inch meter water customer, and a monthly increase of \$1.40, from \$16.92  
28 to \$18.32, or 8.3 percent, for the median usage (5,417 gallons/month) 3/4 inch meter water customer.

1        36.     The Company's current rate design includes three tiers for all customer classes. The  
2 Company and Staff are in agreement regarding retention of the three tier rate design for 5/8 and 3/4  
3 inch residential meters, with a change to the third tier breakover point from 50,000 gallons down to  
4 10,000 gallons.<sup>3</sup> Staff proposes that the existing three tier rate design be retained for all residential  
5 customer meter sizes, with no gallons included in the minimum charge. Oak Creek's proposal  
6 differs from Staff's in that it retains the same three tiers for the Company's 3/4 inch meter size  
7 commercial customers as for 3/4 inch meter size residential customers, but offers only two tiers for  
8 the larger 1 inch and 1½ inch residential meter sizes. The Company's proposal also differs from  
9 Staff's in that it includes second tier breakover points that differ by meter size, ranging from 12,500  
10 up to 250,000, whereas Staff proposes the same breakover point of 25,000 gallons for all commercial  
11 meter sizes.

12        37.     The Company and Staff disagree regarding the treatment of commercial 5/8 and 3/4  
13 inch meter sizes. Staff opposes the Company's proposal to maintain a three-tier rate design for those  
14 commercial meter sizes. Staff explains that the three tiered rate design is the standard residential  
15 design, with the first tier designed to recognize the fact that there is a certain amount of "non-  
16 discretionary" use necessary to sustain living conditions, and with increasing charges for second and  
17 third tier usage levels to appropriately reflect water conservation needs. Staff states that in contrast  
18 to the typical three-tier residential rate design, rate design for non-residential customers typically  
19 does not include a 3,000-4,000 gallon level of "non-discretionary" use, but instead includes only two  
20 tiers. Staff explains that the Company's proposal to keep three tiers for commercial 5/8 and 3/4 inch  
21 meter sizes is inappropriate, because it improperly gives commercial customers the benefit of the  
22 assumption made for residential customers that there is no way to conserve more than the "non-  
23 discretionary use" level. We agree, and will adopt Staff's proposal for two tiers for all commercial  
24 meter sizes, including 5/8 and 3/4 inch meters, in order to send the correct conservation message.  
25 We also find Staff's recommendation to retain three tiers for 1 inch and 1½ inch meter residential  
26 customers reasonable, and will adopt it.

27 \_\_\_\_\_  
28 <sup>3</sup> In its application, the Company did not propose any changes to the existing rate design, which is a three-tiered design  
for all customers, but offered its new rate design proposal in rebuttal testimony.

1        38.     The Company and Staff are in disagreement regarding the design of monthly usage  
2 charges for 1 inch and larger meter sizes. Oak Creek believes its current rate design is flawed due to  
3 its failure to charge larger meters based upon flow capacity as typically adopted by the Commission.  
4 The Company states that imposing a correct design all at once in this case would result in sharp  
5 increases for those customers, and would therefore be inconsistent with the doctrine of gradually  
6 increasing rates. The Company therefore proposes "half-scaling" the monthly minimum for all  
7 meter sizes over 1 inch, based upon 50 percent of those meters' actual flow capacity, and moving to  
8 "full-scaling," based on 100 percent of the actual flow capacity in a future rate case. Staff's  
9 proposed rate design does not include any scaling. While Oak Creek's proposed "half-scaling" of  
10 monthly minimum charges for larger meters may be reasonable, there was insufficient evidence  
11 available in this case to evaluate the proposal. We will therefore direct the Company to incorporate  
12 this rate design concept in its next rate filing, when the concept can be carefully examined.

13        39.     The Company and Staff's proposed rate designs also differ regarding breakpoints for  
14 1 inch and larger meter sizes, and for residential and commercial multi-unit customers. While  
15 Staff's recommended rate design includes the same breakpoint of 25,000 gallons for all commercial  
16 meters and commercial and residential multi-unit customers, the Company proposes differing  
17 breakpoints for all 1 inch and larger meter sizes, and for its commercial and residential multi-unit  
18 customers. Oak Creek's proposed tier breakpoints are based on its familiarity with the usage  
19 patterns of its 1 inch and larger meter size customers and its residential and commercial multi-unit  
20 customers. The Company's proposed breakpoints for these customers are reasonable and will be  
21 adopted.

22        40.     Oak Creek has adequate production and storage capacity to serve the existing base of  
23 customers and reasonable growth.

24        41.     Oak Creek has no outstanding Commission compliance issues.

25        42.     Oak Creek is in compliance with Arizona Department of Environmental Quality  
26 requirements and is delivering water that meets the water quality standards required by Title 18,  
27 Chapter 4 of the Arizona Administrative Code.

28        43.     Oak Creek is not located in any Arizona Department of Water Resources ("ADWR")

1 Active Management Area and consequently is not subject to ADWR reporting and conservation  
2 rules.

3 44. Oak Creek has an approved Curtailment Plan Tariff.

4 45. The Company is current on all property and sales taxes.

5 46. Oak Creek is in good standing with the Commission's Corporations Division.

6 47. Non-account water for Oak Creek's water system was 9.54 percent during the test  
7 year, which is within acceptable limits. Staff states that non-account water should be 10 percent or  
8 less and never more than 15 percent. Staff recommends that the Company monitor the water system  
9 closely and take action to ensure the water loss remains 10 percent or less in the future. Staff further  
10 recommends that if water loss exceeds 10 percent, calculated on an annual basis, Oak Creek should  
11 be required to, prior to filing its next rate case, come up with a plan to reduce water loss to 10  
12 percent or less, or prepare a report containing a detailed analysis and explanation demonstrating why  
13 a water loss reduction to 10 percent or less is not feasible or cost effective. Staff's recommendation  
14 is reasonable and will be adopted.

15 48. Staff recommends that on a going-forward basis, the Company be required to use the  
16 depreciation rates appearing in Exhibit 6 of the Staff Engineering Report in this docket. Staff's  
17 recommendation is reasonable and will be adopted.

18 49. Because an allowance for the property tax expense of the Company is included in the  
19 Company's rates and will be collected from its customers, the Commission seeks assurances from  
20 the Company that any taxes collected from ratepayers have been remitted to the appropriate taxing  
21 authority. It has come to the Commission's attention that a number of water companies have been  
22 unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers,  
23 some for as many as twenty years. It is reasonable, therefore, that as a preventive measure Utility  
24 Source annually file, as part of its annual report, an affidavit with the Utilities Division attesting that  
25 the Company is current in paying its property taxes in Arizona.

26 **CONCLUSIONS OF LAW**

27 1. Oak Creek is a public service corporation within the meaning of Article XV of the  
28 Arizona Constitution and A.R.S. Sections 40-250 and 40-251.



2. The Commission has jurisdiction over Oak Creek and of the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The rates and charges authorized herein are just and reasonable and should be approved.

5. Staff's recommendations set forth in Findings of Fact Nos. 23-28, 37, 47 and 48 are reasonable and should be adopted.

### ORDER

IT IS THEREFORE ORDERED that Oak Creek Water Company is hereby directed to file with Docket Control, as a compliance item in this docket, on or before December 1, 2008, revised rate schedules setting forth the following rates and charges:

#### MONTHLY USAGE CHARGE:\*

5/8" x 3/4" Meter	\$8.00
3/4" Meter	8.00
1" Meter	10.99
1 1/2" Meter	14.17
2" Meter	18.51
3" Meter	26.31
4" Meter	41.64
6" Meter	55.52

\* Multi-Unit Monthly Usage Charge is the 3/4-inch meter charge times the number of units.

Gallons included in Monthly Usage Charge	0
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#### **Commodity Rates (Per 1,000 Gallons)**

##### 5/8-inch and 3/4-inch (Residential)

0-4,000 Gallons	1.73
4,001 to 10,000 Gallons	2.40
over 10,000 Gallons	2.88

##### 5/8-inch and 3/4-inch (Commercial)

0-12,500 Gallons	2.40
over 12,500 Gallons	2.88

##### 1-inch (Residential)

0-4,000 Gallons	1.73
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1	4,001-12,500 Gallons	2.40
2	over 12,500 Gallons	2.88
3	<u>1-inch (Commercial)</u>	
4	0-12,500 Gallons	2.40
5	over 12,500 Gallons	2.88
6	<u>1 1/2-inch (Residential)</u>	
7	0-4,000 Gallons	1.73
8	4,001 to 25,000 Gallons	2.40
9	over 25,000 Gallons	2.88
10	<u>1 1/2-inch (Commercial)</u>	
11	0-25,000 Gallons	2.40
12	Over 25,000 Gallons	2.88
13	<u>2-inch (Commercial)</u>	
14	0-40,000 Gallons	2.40
15	Over 40,000 Gallons	2.88
16	<u>3-inch (Commercial)</u>	
17	0-80,000 Gallons	2.40
18	Over 80,000 Gallons	2.88
19	<u>4-inch (Commercial)</u>	
20	0-125,000 Gallons	2.40
21	Over 125,000 Gallons	2.88
22	<u>6-inch (Commercial)</u>	
23	0-250,000 Gallons	2.40
24	Over 250,000 Gallons	2.88
25	<u>Construction or Bulk</u>	2.88
26	<u>Multi-Unit (Residential and Commercial)</u>	
27	0-(number of units x 10,000) Gallons	2.40
28	Over (number of units x 10,000) Gallons	2.88

**SERVICE LINE AND METER INSTALLATION CHARGES:**

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter</u>	
	<u>Installation</u>	<u>Installation</u>	<u>Total Charge</u>
5/8" x 3/4" Meter	\$ 340.00	\$ 75.00	\$ 415.00
3/4" Meter	340.00	135.00	475.00
1" Meter	390.00	160.00	550.00
1 1/2" Meter	420.00	365.00	785.00
2" Meter	550.00	825.00	1,375.00

1	3" Meter	715.00	1,260.00	1,975.00
	4" Meter	1,030.00	2,010.00	3,040.00
2	6" Meter	1,550.00	4,085.00	5,635.00

**SERVICE CHARGES:**

4	Establishment	\$35.00
5	Establishment (After Hours)	50.00
	Reconnection (Delinquent)	50.00
6	Meter Test (If Correct)	30.00
7	Deposit	*
	Deposit Interest	*
8	Reestablishment (Within 12 Months)	**
9	NSF Check	25.00
	Deferred Payment (per month)	1.50%
10	Meter Re-read	20.00
	Late Payment Penalty	5.00
11	Moving Customer Meter (Customer Request)	***
12	After Hours Service Charge	****

\* Per Commission Rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

\*\*\* Per Commission Rule R14-2-405.

\*\*\*\* Cost, per Commission Rule R14-2-403(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after December 1, 2008.

IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall notify its customers of the rates and charges authorized hereinabove and their effective date in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regular scheduled billing.

IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall, in its next rate filing, submit a rate design proposal that incorporates scaling the monthly minimum charge for all meter sizes over one inch based on flow capacity of the meters.

IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall monitor the water system closely and take action to ensure the water loss remains 10 percent or less in the future. If prior to filing its next rate case, Oak Creek Water Company No. 1's water loss exceeds 10 percent, calculated on an annual basis, Oak Creek shall either (1) devise a plan to reduce water loss to 10 percent or less, and file the plan with its next rate case filing; or (2) prepare a report containing a

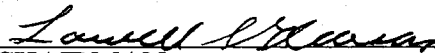
1 detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is  
 2 not feasible or cost effective, and file the report with its next rate case filing.

3 IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall, on a going-  
 4 forward basis, use the depreciation rates appearing in Exhibit 6 of the Staff Engineering Report in this  
 5 docket.

6 IT IS FURTHER ORDERED that Oak Creek Water Company No. 1 shall annually file, as  
 7 part of its annual report, an affidavit with the Utilities Division attesting that it is current on paying its  
 8 property taxes in Arizona.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.


10 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

11  
 12   
 13 CHAIRMAN

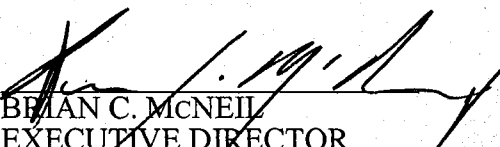
COMMISSIONER

14   
 15 COMMISSIONER

16   
 17 COMMISSIONER

18   
 19 COMMISSIONER

20  
 21 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
 22 Director of the Arizona Corporation Commission, have  
 23 hereunto set my hand and caused the official seal of the  
 24 Commission to be affixed at the Capitol, in the City of Phoenix,  
 25 this 19<sup>th</sup> day of Nov., 2008.

26   
 27 BRIAN C. McNEIL  
 28 EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

1 SERVICE LIST FOR:

OAK CREEK WATER COMPANY NO. 1

2 DOCKET NO.:

W-01392A-07-0679

3 Paul Slevin, Vice President  
4 OAK CREEK WATER COMPANY NO. 1  
5 90 Oak Creek Boulevard  
6 Sedona, Arizona 86336-5643

7 Richard L. Sallquist  
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11 Thomas J. Bourassa, CPA  
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15 Kevin O. Torrey, Staff Attorney  
16 Legal Division  
17 ARIZONA CORPORATION COMMISSION  
18 1200 W. Washington Street  
19 Phoenix, Arizona 85007

20 Ernest Johnson, Director  
21 Utilities Division  
22 ARIZONA CORPORATION COMMISSION  
23 1200 W. Washington Street  
24 Phoenix, Arizona 85007